



ECONOMIC RECOVERY PACKAGE SUMMARY REPORT GUARANTEE WINDOWS BY KCGF





The data in this report are based on the reporting made on 20/01/2022.

In case of the further updates the information might change!

CONTENTS

04 I - INTRODUCTION

05 II - PROGRAM IMPLEMENTATION

- 05 LEGAL OBSERVATIONS
 - 06 THE CAPITAL
 - 06 OPERATIONAL PREPARATIONS
 - 07 COMMUNICATIONS
-

08 III - ACHIEVEMENTS

- 08 PORTFOLIO DEVELOPMENT OF ERP WINDOWS
 - 09 CREDIT GUARANTEES UNDER GUARANTEE WINDOWS
 - 09 PARTICIPATION OF GUARANTEED LOANS BY INVESTMENT
-

10 IV - ADDITIONALITY

- 10 PARTICIPATION OF GUARANTEED LOANS IN THE BANKING SECTOR
 - 11 AVERAGE AMOUNT OF GUARANTEED LOANS
 - 11 AVERAGE LOAN MATURITY
 - 12 COLLATERAL COVERAGE
 - 12 ESTIMATED NUMBER OF JOBS CREATED
 - 13 IMPRESSIONS FROM THE FINANCIAL SECTOR
-

14 V - SUCCESS STORIES FROM THE FINAL BENEFICIARIES

- 14 THE WHITE TREE - A START UP IN PEJTON NEIGHBORHOOD
 - 15 MOEA FRUTOMANIA - A LITTLE BOTTLE WITH BIG LOVE
 - 16 AGRIMUM FRUITS SHPK - A SPECIAL SUCCESS STORY
 - 17 NATYRA G - CHEESE HOUSE
-

I. INTRODUCTION

In our country, like in every other country in the world, the COVID-19 pandemic had a negative impact on the economy, leading to a decrease in the liquidity of Small and Medium Enterprises (MSMEs) in almost all economic sectors, without exception. Of course, this first affected activities which due to the pandemic were forced to work at reduced capacity or shut down altogether.

In response to the unusual pandemic situation created from COVID-19 and in order to face it, the Government of the Republic of Kosovo during 2020 undertook a series of coordinated actions, one of which was the design of the Economic Recovery Package. Part of the working group were the office of the Prime Minister, relevant economic ministries, the Central Bank, the Kosovo Credit Guarantee Fund, the business community and external experts.

Credit guarantee schemes are an instrument or extended arm of a state's economic policy, through which by sharing a portion of credit risk with commercial banks one could affect the return of confidence in the banking sector to catalyse the much desired lending in the first days after the crisis. Rightly, all the financial packages of different countries, or international financial institutions, in their mechanisms to fight the current COVID-19 crisis, have foreseen the creation of new schemes or the strengthening of existing guarantee schemes as sub-components, in order to stimulate lending in the economy.

Fortunately, in the situation created by the COVID-19 pandemic, our country already had an institution specifically for the provision of guarantee schemes which was established five years ago. Hence, what was needed now was the adaptation of the KCGF guarantee scheme in the reality created by the pandemic crisis, in order to facilitate access to finance for certain sectors of the economy, with particular emphasis on market segments that could be most affected by the pandemic crisis.

This adaptation was one of the most important measures of the Economic Recovery Package.

In December 2020, the Government of the Republic of Kosovo adopted the Law on Economic Recovery - COVID-19, which, among other objectives, aimed to establish the legal basis to modify the KCGF guarantee scheme, in order to fight the credit crunch which could potentially exacerbate the negative effects of the economic crisis caused by the pandemic.

The Law on Economic Recovery provided for the KCGF to offer credit coverage to MSMEs with a guarantee of up to 80%, to allow credit guarantees to farmers, and to subsidise the guarantee fee.

The implementation of this joint initiative was made possible with the capital provided by the Government of the Republic of Kosovo through the World Bank Program for Strengthening of the Financial Sector and by the German Government through the Development Bank - KfW.

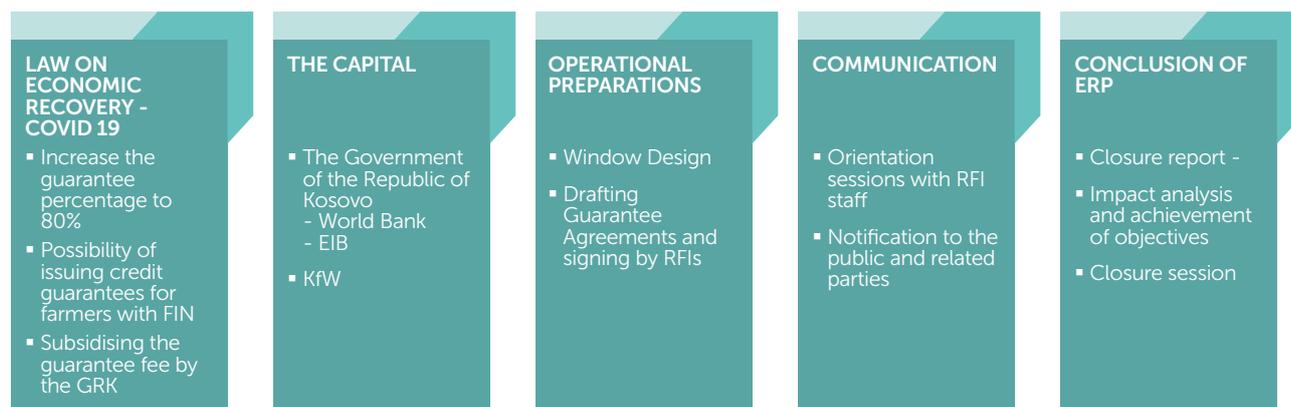
In relation to this, KCGF at the beginning of 2021 implemented the guarantee windows within the Economic Recovery Package (ERP) which would address the needs for liquidity and investment for the strategic sectors and segments of our country.

KCGF through the guarantee windows within the ERP, in addition to the guarantee scheme combined with the subsidy of the guarantee fee by the Government of the Republic of Kosovo, aimed to restore the confidence in the financial sector and avoid credit crunch, to support the reorganisation of the economy (production, agriculture, services, women in business, startups), a necessary action in a crisis situation caused by the Covid-19 pandemic.

The implementation of Windows within the ERP started at the beginning of 2021 and ended on 31 December 2021, as provided in the Law on Economic Recovery - COVID-19.

II. PROGRAM IMPLEMENTATION

The implementation of Windows within the ERP consisted of several phases and activities.



LEGAL OBSERVATIONS

In legal terms, the implementation of Windows was made possible by the adoption of the Law on Economic Recovery - COVID-19. The adoption of the Law was of particular importance for the implementation of the economic recovery program that would then bring about overcoming of the crisis, or mitigate the consequences of the crisis. The law enabled the KCGF to provide a guarantee scheme with higher credit guarantee coverage as well as fee coverage by the Government of the Republic of Kosovo, both of which are important measures to restore confidence in the banking sector in order to keep lending active and prevent credit crunch which would then bring more serious consequences for the economy.

The law addressed the following:

- Increase of the guarantee percentage up to 80%;
- Possibility of issuing credit guarantees for farmers duly registered in the register of farmers who possess a Farm Identification Number (FIN) even though they do not have a business registered in Kosovo Business Registration Agency (KBRA);
- Subsidy of the guarantee fee by the Government of the Republic of Kosovo.

THE CAPITAL

The implementation of ERP Windows would be enabled through the provision of capital which was made possible by:

CAPITAL DONATED FOR ERP	€ 24,400,000
Government of the Republic of Kosovo <i>World Bank - Kosovo Financial Sector Strengthening Project</i>	€ 21,400,000
KFW	€ 5,000,000

In addition to the capital contribution, the Government of the Republic of Kosovo (GRK) through its Ministry of Finance (MoF) further expanded its contribution by signing a cooperation agreement with the KCGF to subsidise the guarantee fee. Through this agreement, the MoF

pledged to cover the guarantee fee in the total amount of up to 5 million euros, which meant that KCGF would use the funds disbursed by the Government to cover the guarantee fee for loans guaranteed under the Economic Recovery Package.

OPERATIONAL PREPARATIONS

To address the request for financial support of MSMEs affected by the crisis caused by COVID-19, KCGF designed and implemented six windows:

- Production window;
- Agriculture window;
- Services window (with special focus on HORECA);
- Trade window (limited);
- The window for women in business and
- Window for new businesses (start-up).

Designed windows had features that differentiated them from current windows such as:

- Increase credit guarantee coverage up to 80% of the loan value;
- Involvement of Farmers with Farmer Identification Number (FIN);
- Increase of the guarantee exposure for the production sector up to 500,000 euros from the standard which is up to 250,000 euros;
- Increase of credit exposure to over 1,000,000 EUR;
- Guarantee fee - subsidised by the GRK (up to 5.0 mil. EUR).

In relation to this KCGF drafted the Guarantee Agreements which were also agreed by the Registered Financial Institutions (RFI). It also made the necessary changes to credit risk policy, to the MIS and NAV systems, and made the allocation of limits to RFIs.

In line with our institutional efforts to contribute to economic development with full responsibility for the environment and society, ensuring that guaranteed loans will be subject to environmental control, KCGF made every effort to ensure that the implementation of Windows within the ERP is complied with the requirements of the Environmental and Social Management System (ESMS).

To achieve this goal, KCGF together with the World Bank Group have developed an ESMS for RFIs that did not have an ESMS before, provided support as well as appropriate training for relevant staff so that RFIs as easily as possible implement the ESMS as well as easily identify and assess environmental and social impacts before the investments starts.

In order to convey the message to the RFI staff, so that the ERP Windows could be easily implemented, KCGF organised a series of orientation sessions in which the importance of guarantee schemes was discussed, especially in crisis situations, on the addressing of GRK and international donors related to this crisis, as well as the characteristics of ERP windows.

The total number of RFI staff attending these orientation sessions along with ESMS training was 1,057.

COMMUNICATIONS

The implementation of the Economic Recovery Package was accompanied by a communication plan consisting of a range of activities in order to send information to RFI staff, the final beneficiary and the public. The activities were informative and awareness raising regarding the innovation and conveying of the message regarding the role of KCGF in the implementation of the ERP as well as its support from the GRK and international donors.

The target groups were:

- Financial institutions;
- Private Business Sector and relevant associations;
- General public.

Communication was supported by news broadcast on media (TV, portals, press, KCGF website and social media) exclusive interviews with KCGF experts, stakeholder roundtables and other forms of information, including social media.

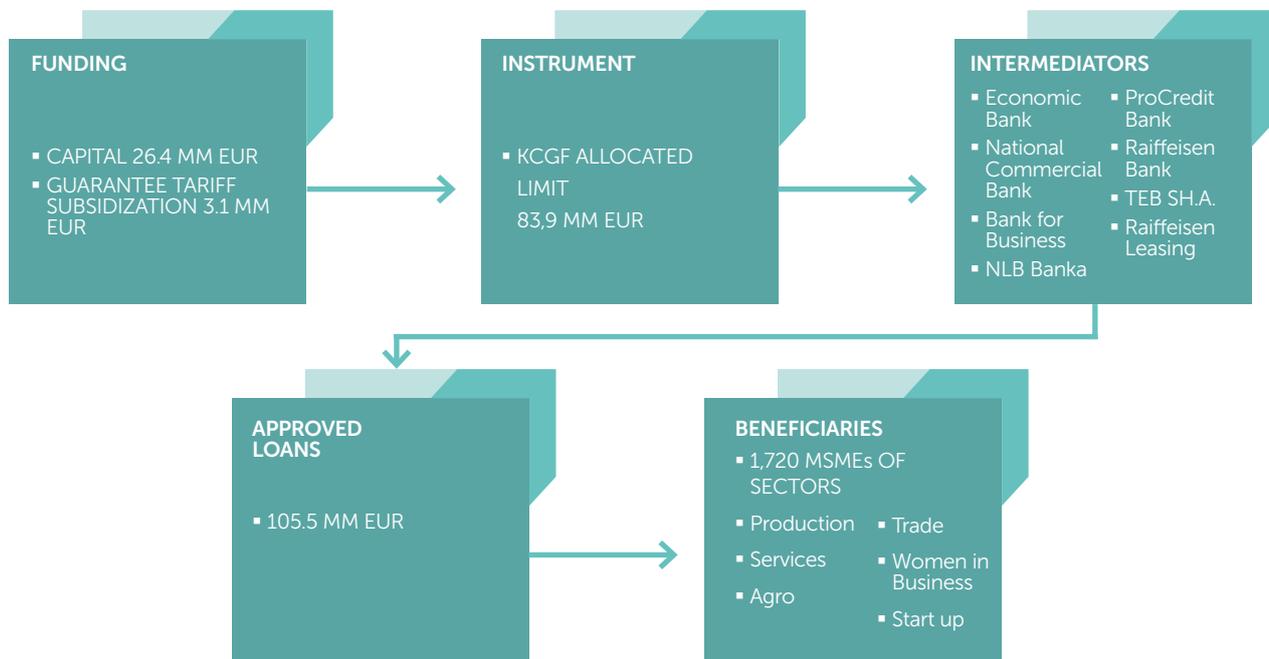
KCGF developed and distributed various informational materials such as publications (magazines), information brochures, FAQs, and participated in interviews in various media.

At the same time, a special link for Economic Recovery was added to the KCGF website, which included KCGF windows and initiatives together with donors on this issue with all the necessary information.

To keep the public informed about the development of these Windows, KCGF on a monthly basis informed the RFIs, Donors and the public about the development of the guaranteed portfolio under the ERP.



III. ACHIEVEMENTS



With the capitalisation of the institution, KCGF allocated limits for eight Registered Financial Institutions gradually in four phases worth a total of 83.9 million euros. Such an allocation enabled

a loan of 105.55 million euros for engaged MSMEs in the sectors of Production, Services, Agriculture, Trade as well as segments such as Women in Business and Startups.

PORTFOLIO DEVELOPMENT OF ERP WINDOWS

Despite the increased risk perception in the market and the unpredictability of the course of events caused by the situation brought by the pandemic, KCGF, thanks to mediation through ERP Windows,

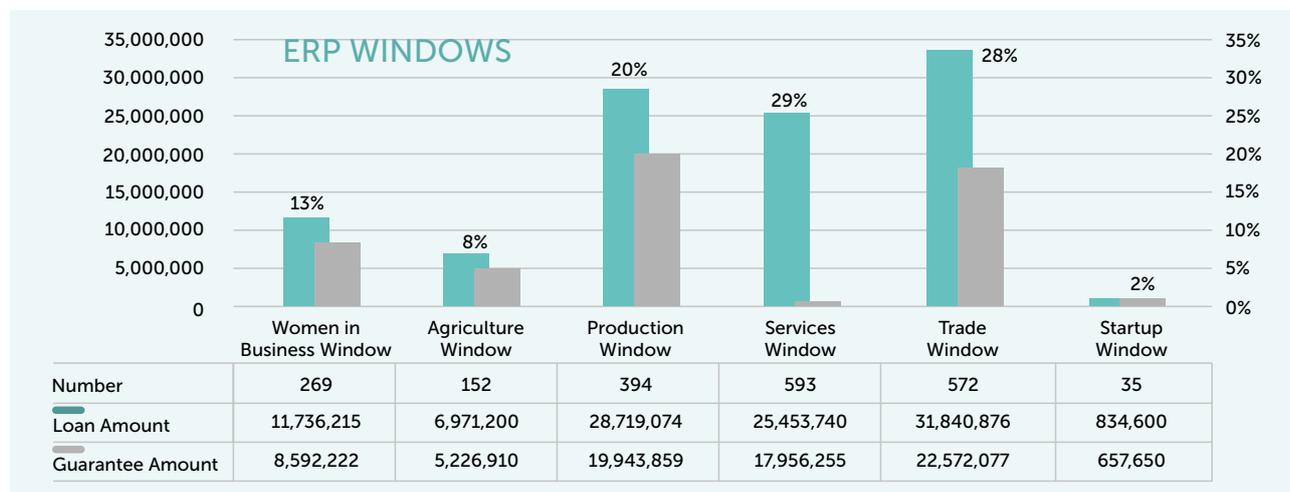
during 2021 enabled a loan in the sector worth 105.55 million euros, distributed in 2,015 loans for 1,720 MSMEs, backed by guarantees in the amount of euro 74.94 million.



CREDIT GUARANTEES UNDER GUARANTEE WINDOWS

Stimulating sectors that create added value for the economy was one of the KCGF objectives. To this end, KCGF, with the help of donors and its partners, has worked continuously to build windows that would support Economic Recovery,

with a particular focus on strengthening the strategic sectors and marginalized segments such as women in business and startups.



Guarantee windows under the Economic Recovery Program had a positive impact on increasing the confidence of the banking sector in terms of increasing lending activity, after the pandemic crisis. Among the 2,015 loans for 1,720 MSMEs, the most dominant Window and thus the most dominant sector in the loan portfolio guaranteed during 2021 within the ERP Windows was the

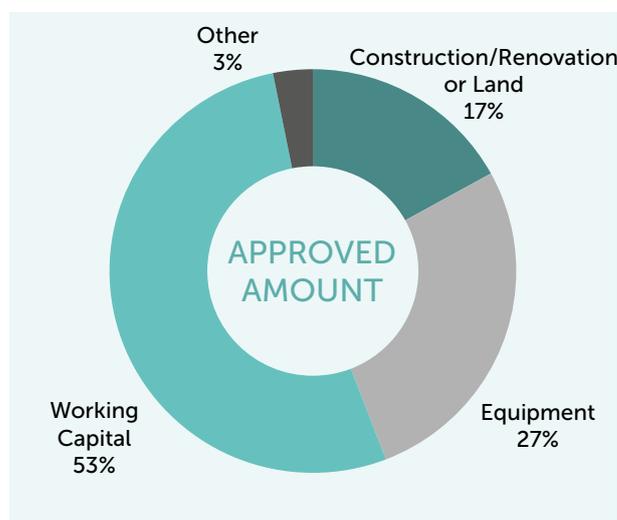
Services Window with 29% followed by the Trade Window with 28%, Production Window with 20%, whereas the Agro Window participated with 8%. The women in business window had a share of 13%, which compared to the participation of the women in business in overall guaranteed portfolio during 2021, was higher by 8.5%.

PARTICIPATION OF GUARANTEED LOANS BY INVESTMENT

Credit demand and type of investment help us to understand economic developments during the pandemic period.

In 2021, within the ERP Windows 27% of approved loans were invested in equipment (production machinery, agricultural equipment, other equipment); 17% on land, construction or renovation; 54% for working capital and 3% elsewhere.

From these data we notice that loans destined for goods and liquidity were the focus of MSMEs investments during this period which is related to the cash flow pressure during 2021.



IV. ADDITIONALITY

The Economic Recovery Package (ERP Windows) as noted above was expected to reduce the negative impact of the pandemic crisis on the MSME sector, as well as facilitate access to finance for MSMEs during and after the pandemic crisis.

To note this impact, KCGF has analysed the indicators related to financial additionality by reflecting on the data provided by the Kosovo Credit Registry and the data provided by the KCGF Information Management System (IMS). In this case, the loans allowed in the sector during 2021 were analysed and compared with the loans allowed in the sector, namely the loans guaranteed by the KCGF within the ERP Windows.

The monitoring results of these indicators showed us that thanks to the activity of KCGF in general, access to finance has increased and lending standards have relaxed.

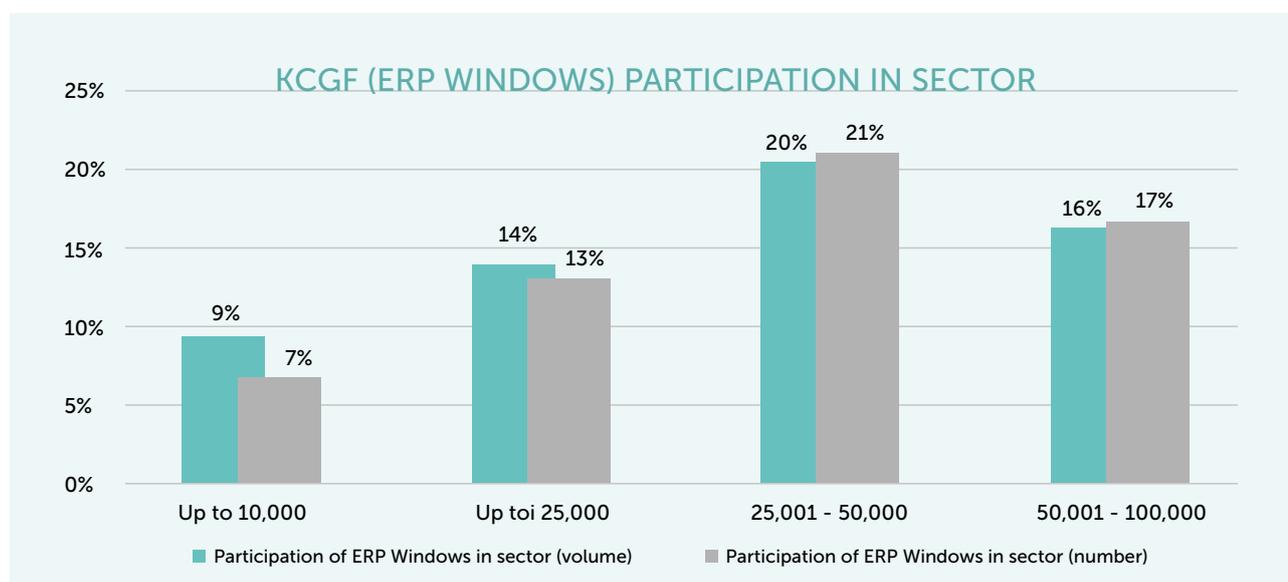
Furthermore, Guarantee windows within the ERP affected financial additionality such as:

- Increased level of lending to final beneficiaries;
- Increase in credit average;
- Increase of credit maturity;
- Reduction of demand for collateral.

PARTICIPATION OF GUARANTEED LOANS IN THE BANKING SECTOR

Loans guaranteed under ERP Windows had a significant share in relation to the total loans approved during 2021 (customer segment under 1.0 million euros) in the banking sector. In the category of loans up to 100,000 euros, the share of ERP Windows in total lending in the banking

sector in the same category was 17% (in amount), which shows a significant share in the total lending of RFIs up to 100,000 euro thus considering that the KCGF credit guarantee scheme has added a positive impact on financial intermediation.



AVERAGE AMOUNT OF GUARANTEED LOANS

The KCGF portfolio under the ERP at the end of 2021 was populated by enterprises which were financed with an average credit value of 52,000 euros. This value corresponds to the small category of enterprises which lack collateral, hence the need for financial support.

Loans guaranteed by KCGF within the ERP Windows compared to unguaranteed loans in the sector, up to 100,000 euros were 33% higher.

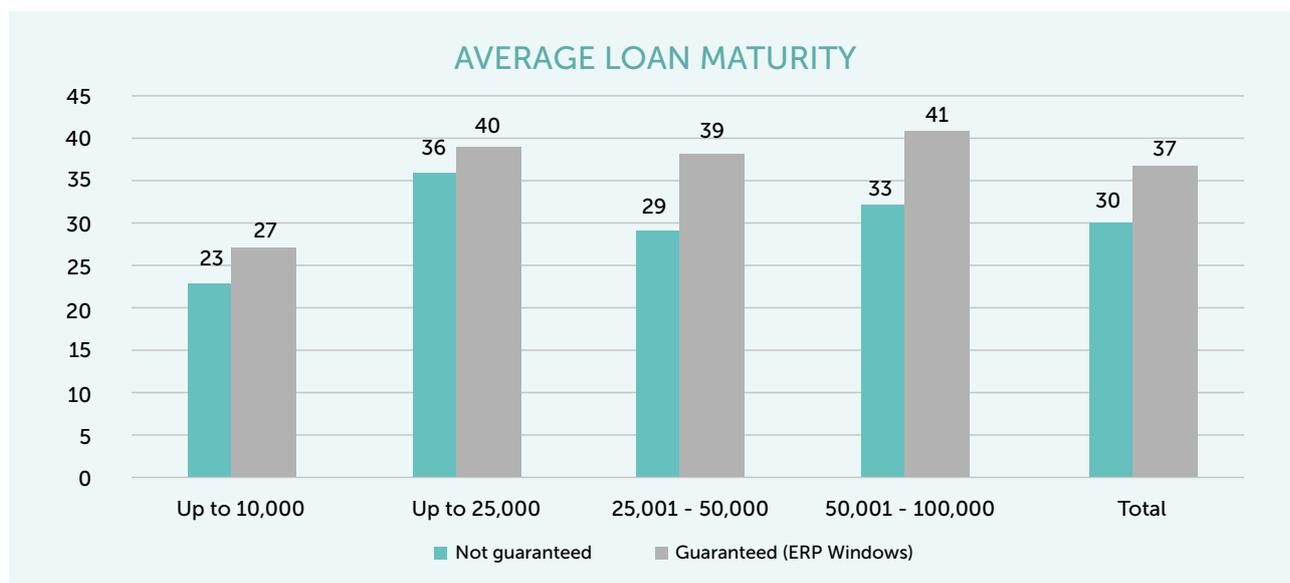
The increase of the average loan amount through the mediation of KCGF for this category reflects the impact of the guarantee scheme on better lending standards by banks during the loan approval process.



AVERAGE LOAN MATURITY

The portfolio guaranteed under the ERP Windows during 2021 consisted of medium-term loans with an average of 38 months. The average loan maturity as an indicator of financial additionality in this year showed an increase in the maturity of guaranteed loans compared to unguaranteed loans. The longer the maturity, the better the financing terms for the borrowers, while the risk for the lenders will be higher.

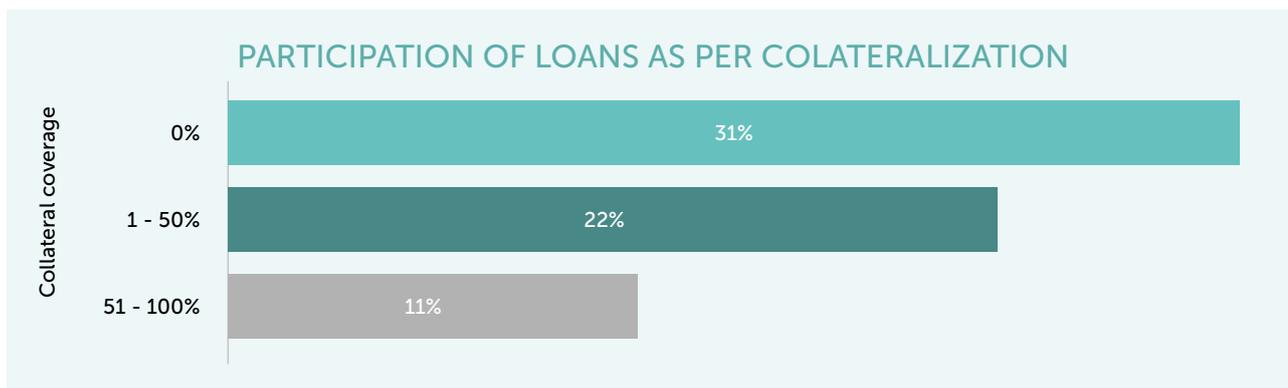
The average duration of guaranteed loans under the ERP Windows up to 100,000 euros was 37 months or 23% higher than the average unguaranteed loans. In addition to the opportunities offered by ERP Windows, this indicator during 2021 results in more relaxed risk standards by the RFIs, and therefore better borrowing conditions for MSMEs, given that for MSMEs each increase in maturity will increase the borrower's capacity to complete the planned investment.



COLLATERAL COVERAGE

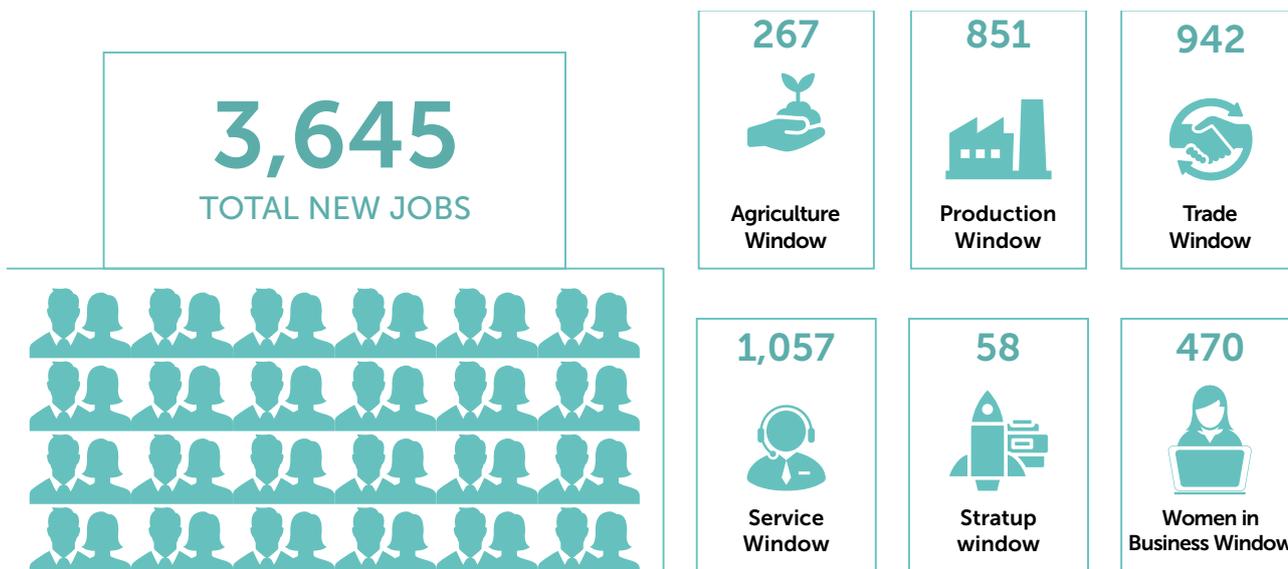
In a pandemic period where the risk expectations are higher, the RFI reduced the demand for collateral in addition to the opportunity offered by KCGF within the ERP Windows which offered a guarantee rate of up to 80%. While the standard RFI collateral requirements are over 150% of the value of the loan, which includes real estate, the loans guaranteed under the ERP Windows had

significantly reduced the collateral requirement. 31% of loans were not collateralized at all, while for 31% less than 100% collateral was required. In addition, if we consider the fact that very often the goods are taken as collateral, as well as the second order mortgage or even more, then we can say that the impact of the PRE window is even higher.



ESTIMATED NUMBER OF JOBS CREATED

As a result of investments made by credit through the support of the credit guarantee scheme in the best circumstances would reflect with new jobs created in the private sector.



By analysing the 2,015 approved and guaranteed loans within the ERP Windows during 2021, we notice that the MSMEs have forecast 3,645¹ new jobs or a 23% increase on the current basis.

¹ The number of new positions is calculated from the data processed in the KCGF Information Management System, with the RFI processing the data declared by the MSMEs.

The indicators presented are the result of quantitative data provided by KCGF's MIS, and CRK*, while World Bank consultants are engaged to conduct an in-depth study by combining more representative interviews with RFIs and relevant Institutions, quantitative and qualitative data by making a comparison of customers of the same profile (guaranteed and non-guaranteed). This study, which is expected to be completed in the first quarter of 2021, will provide us with a clearer

picture of the impact of ERP Windows. Furthermore this study will give us a more accurate answer on:

- whether the Economic Recovery Program (ERP Windows) has mitigated the negative impact of the pandemic crisis on the MSME sector, and
- whether ERP Windows have facilitated access to finance for MSMEs during and after the pandemic crisis.

* The data in this report are based on the reporting made on 20/01/2022.
In case of the further updates the information might change!

IMPRESSIONS FROM THE FINANCIAL SECTOR

The Economic Recovery Package has been praised by the Registered Financial Institutions (RFI) which from the beginning recognised it as a necessary way to support access to finance including all sectors and categories of clients affected by the crisis.

According to the RFI, the Kosovo Credit Guarantee Fund has made an extraordinary contribution to the economic recovery from the effects of the pandemic. The banking sector has found invaluable

support in every step of this difficult journey in the past year. Through guarantee schemes that KCGF has made available to the sector, the banking sector has managed to lend to sensitive segments of the economy which have needed liquidity and investment and which without the support of the Fund would have more difficult access to finance. In particular, it is worth mentioning that there has been progress in lending in the sector of production, services and women in business as important categories for the country's economy.



V. SUCCESS STORIES FROM THE FINAL BENEFICIARIES

To visualise the reality, further we will introduce you to some beneficiary clients of Windows within the ERP, some success stories which present the benefits that this scheme brought to MSMEs practice.



THE WHITE TREE - A START UP IN PEJTON NEIGHBORHOOD

"The White Tree" – is a restaurant in Pristina, founded in 2020 by three former friends/colleagues.

"Starting a new business is a challenge, considering the financial aspect, entering a new activity is easier when you do not enter alone but together with a partner. We started our business in 2020 right at the beginning of the pandemic. It was a joint initiative by all three partners to bring a new concept, a better quality service in the neighborhood where we operate", emphasizes Mr. Patience Xhiha co-owner and business manager of "The White Tree".

"The White tree employs 19 workers, and currently is expanding with 6 additional workers. Women's empowerment is one of the goals of the founders, so it is planned that the participation of women from 40% as it is now, to increase further and reach 60%.

"Investments in the business were mainly made from the capital of the co-founders, but still needed an additional injection to complete the investments in the restaurant inventory. We achieved this investment through the loan that was guaranteed by the Kosovo Credit Guarantee Fund", emphasizes Mr. Xhiha.

Through this investment, it was managed to make the space functional and ready to start the activity. The support of this investment is made through the loan guaranteed by the Kosovo Credit Guarantee Fund together with the COSME Program of the European Investment Fund which are supporting access to finance for MSMEs at different stages of their life cycles : creating, expanding or transferring business.



MOEA FRUTOMANIA - A LITTLE BOTTLE WITH BIG LOVE

It is always a pleasure when we visit a local business, the one with all its capacities takes care to offer quality and completely natural products.

The factory we visited was established in 2006. Since then, the main idea and the goal has been the cultivation, production and marketing of natural products of all types of trees that are cultivated in the land of Kosovo.

The nature that surrounds the factory, the tools, the space, the working conditions, the overall organization, leaves the most beautiful impressions and a lesson on how should a business function and increase productivity.

The village of Kravarica near Gjilan is exact location of the business we visited - MOEA - which grows apples, cherries, cranberries and other fruits at full capacity.

It produces FRUTOMANIA jam and juices, which are 100% natural and varied. It is a brand that has a name for quality, offers healthy, original and 100% natural products.

The smell of apples, the clean environment, the part where the fruits are selected, canned, squeezed and the whole chain of production of super-natural and local juices, are indicators that

this business has grown and its main goal is the quality and delivery of healthy products. .

With over 400 hectares of land, over 30 regular workers throughout the year and other seasonal, depending on the volume of work, MOEA has managed with professionalism and dedication, in addition to the local market to penetrate the international market, because quality is the main criterion for this business. To date, it has managed to introduce and produce 16 different types of drinks, natural and high quality, jam and alcoholic beverages in many European countries such as Austria, Hungary, Finland, Italy, of course in Albania.

MOEA is a business that has used the loan from the KCGF guarantee scheme, within the ECONOMIC RECOVERY PACKAGE. In fact, two loans, which are mainly used for the provision and supply of raw materials, raw materials and packaging. These loans are approved quickly and easily, without the need for collateral, as part of facilitating access to finance provided by the recovery package.

The hospitality, the professional presentation of the business by the staff and the management that we met, left us with a good taste of a local business that continues to develop and increase its capacities.



AGRIUM A SPECIAL SUCCESS STORY

On a beautiful September day, we went to visit the company AGRIUM FRUITS SHPK – located in the village of Lloshkobar near the city of Ferizaj, where we met a special entrepreneur, Mr. Avdullah Isufi. Hardworking, modest, hospitable man who from the first meeting amazed with his professionalism, knowledge and acquaintance related to agribusiness.

Upon entering his courtyard, where he had both home and his business, we could notice a beautifully arranged flower garden. At first impression, you could notice the devotion to his work and business.

He founded this business in year 2000, and today, he has entrusted key tasks to his sons.

Initially, started with primary production, continued with expanding activities related to the collection and canning of fresh and quality fruits and vegetables by farmers; as well as finding markets and providing various agricultural inputs.

The years 2010 – 2011 were crucial years of growth and expansion of his business.

In 2016 through loans, AGRIUM FRUITS LLC had managed to purchase refrigerators, and increase capacities for collection, selection, packaging, and export of goods in EU.

Year 2016 and exactly the month of September, is related to the month when the Kosovo Credit Guarantee Fund (KCGF) was operationalized where among the first credit guarantees issued was the one for the company AGRIUM FRUITS SHPK.

“Through continuous expansion, to support our activities, we needed investment in equipment. We achieved this investment with the loan that was guaranteed by the Kosovo Credit Guarantee Fund, in addition to which the demand for collateral was much lower”, emphasizes Mr. Isufi.

Being a customer with excellent credit history, he qualified and received another loan, again guaranteed by KCGF, to purchase additional equipment’s to improve yield selection (tapes and detectors that automatically make the selection).

“Kosovo has large capacities to produce all kinds of agricultural crops to meet the needs of local market and the rest for export. We just need commitment, dedication and hard work”- are the words that this wise and hardworking man told us.

Many businesses, through loans could grow and prosper just as I did. In a short site visit of his business, we saw only a part of the investments done. We returned at the office with best impressions of a business that has grown and prosper in Kosovo.



NATYRA G - CHEESE HOUSE

From Prishtina, on the old road, not far from the entrance to Ferizaj, in the place called Prelez i Muhaxherëve, among many other businesses is the one we visited - the NATYRA-G cheese house.

A smiling lady full of energy, Shemsija waited for us at the workplace, which she and her husband, Idrizi, started in 2011. The factory of natural dairy products, has a variety of other products such as: cheese, butter, various yogurt, as well as many types of products that stand out for originality and are completely natural. Factory with many new machines, where dairy products are processed, packaged and prepared for distribution.

"Everything here is BIO, because, this is business concept we designed since the beginning," says Ms. Shemsije, a great worker who started and set up her business.

"I have always dreamed of growing my business, to have modern and sophisticated equipment that facilitates and enables the quality production of natural products."

We have already managed to have the desired equipment, we bought it through the loan we used, which is guaranteed by the Kosovo Credit Guarantee Fund.

"This loan was approved very quickly, without collateral and with shortened procedures. As clients who have regularly paid installments and loans, we had an advantage and qualified to invest further in our business," Shemsija told us.

"We have already increased the capacities and we have over 20 regular employees. "Today we work with a processing capacity of 2500 liters of milk per day, although we have capacity to go up to 70,000 liters, which is our goal for the future", said Mr. Idrizi, a man who always stands by Shemsija, who is known for organizing and carrying out all the operational work required by this business.

Natyra G, where the whole family is engaged, has built and set up the factory year after year by investing and increasing production capacity from all-natural milk products.



Kosovo Credit Guarantee Fund

Address:

Njazi Alishani No. 5,
10 000 Pristina, Republic of Kosovo

Phone: +383 (0) 38 225 600

info@fondikgk.org

www.fondikgk.org